

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Davison-Richfield Area Fire Authority	County Genesee
Audit Date June 30, 2004	Opinion Date August 11, 2004	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1-968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 1 00% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) BKR Dupuis & Ryden			
Street Address 111 E. Court Street, Suite 1A	City Flint	State MI	ZIP 48502
Accountant Signature 		Peggy Haw Jury, CPA	

Financial Statements
Davison-Richfield Area Fire Authority
Davison, Michigan
For the Year Ended June 30, 2004
with Independent Auditors' Report

**Davison – Richfield Area Fire Authority
Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

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Introductory Section

**Davison - Richfield Area Fire Authority
Davison, Michigan
List of Appointed Officials and Fire Chief**

Appointed Officials

Pete Auger	Chairperson
Julie Brandon	Vice Chairperson
Jim Jacques	Secretary
Kurt Soper	Treasurer
Mike Christopherson	
Ron Emery	
Lisa Holmes	

Fire Chief

Mike Wright

Financial Section

Independent Auditors' Report

Davison – Richfield Area Fire Authority Board
Davison – Richfield Area Fire Authority
Davison, Michigan

We have audited the financial statements of the governmental activities of the Davison - Richfield Area Fire Authority, Davison, Michigan (Authority) as of June 30, 2004, and for the year then ended, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note IB, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities of the Davison - Richfield Area Fire Authority, Davison, Michigan at June 30, 2004, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on page 4 - 5 and the information in the required supplementary information section on page 17 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BKR Dupuis & Ryden

Certified Public Accountants
Flint, Michigan

August 11, 2004

Management's Discussion and Analysis

**Davison – Richfield Area Fire Authority
Management's Discussion and Analysis
June 30, 2004**

As management of Davison – Richfield Area Fire Authority (Authority), we offer readers of Davison – Richfield Area Fire Authority's financial statements this narrative overview and analysis of the financial activities of the Davison – Richfield Area Fire Authority.

The basic financial statements for the Davison – Richfield Area Fire Authority are comprised of the governmental fund balance sheet/statement of net assets, combined statement of revenues, expenditures, and changes in fund balances-statement of activities and notes to the financial statements.

The statement of net assets presents the information of the governmental fund for both the assets and liabilities, with the difference between the two reported as net assets.

The statement of activities presents information showing how the governmental fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the governmental fund financial statements.

First Year – Governmental Accounting Standards Board Statement No. 34

The Authority is implementing the new Governmental Accounting Standards Board Statement No. 34 reporting requirements this year. Known as GASB 34, the new reporting requirements include this letter, which should provide a comparative analysis between the current-year and prior-year financial information. However, as this is the first year the Authority is implementing GASB 34, the prior-year financial information is not available in the GASB 34 format. The Governmental Accounting Standards Board (GASB) has recognized this problem, and does not require the Authority to restate prior year financial information for the purposes of providing comparative data in the first year of implementation. The Authority will present a comparative analysis of government-wide data in future years when prior-year information is available.

Financial Highlights

The government-wide financial analysis focuses on the Statement of Net Assets and the Statement of Activities. The total assets of the Authority are \$2,624,787 of which \$1,767,091 represents cash, cash equivalents, and investments. The liabilities are \$68,215, which represents amounts due to vendors of \$17,345 and \$50,870 of accrued wages, leaving current net assets of \$2,556,572.

Net assets increased \$131,693 for the Authority as a result of \$453,716 in fire protection expenses which are offset by direct charges for services of \$577,753 and general revenues of \$7,656. Charges for services of \$572,743 were generated from fire runs which are charged to the individual participating units based on the location of the fire runs. During the fiscal year ended June 30, 2004, the Authority had a total of 427 runs. 397 of the total runs were billed to the participating units at a per run charge of \$1,450; 47 of the total runs were mutual aid/weather runs billed at \$483 per run. The Authority generated inspection income for the first time in fiscal 2004 in the amount of \$5,010.

Net assets invested in capital assets amount to \$686,395 leaving unrestricted net assets of \$1,870,177.

Capital assets include total assets of \$2,146,200. These assets are depreciated over various lives based on the type of asset. Accumulated depreciation to date is \$1,459,805. Should the Authority ever disband the capital assets are to be allocated based on the contributions made by each participating unit for specific years. These percentages are calculated yearly and are detailed by year in the notes to the financial statements.

The revenue collected for fire runs is allocated as follows: future equipment replacement \$60; future vehicle replacement \$387; and normal operations \$1,003 for regular runs and \$36 for mutual aid/weather runs. There fore, the majority of the unrestricted net assets are being set aside for future equipment and vehicle expenditures. At June 30, 2004, \$1,499,590 was set aside for future vehicle expenditures and \$323,371 was set aside for future equipment expenditures.

Basic Financial Statements

Davison-Richfield Area Fire Authority
Statement of Net Assets and
Governmental Fund Balance Sheet
Governmental Fund
June 30, 2004

	<u>Governmental Fund</u>	<u>Adjustments (Note II A)</u>	<u>Statement of Net Assets</u>
Assets			
Cash and cash equivalents	\$ 767,091	\$ -	\$ 767,091
Investment	1,000,000	-	1,000,000
Accounts receivable	450	-	450
Due from other governments	169,655	-	169,655
Prepaid costs	737	-	737
Deposits	459	-	459
Fixed assets, net	-	686,395	686,395
	<u>\$ 1,938,392</u>	<u>686,395</u>	<u>2,624,787</u>
Liabilities			
Accounts payable	\$ 17,345	-	17,345
Accrued wages	50,870	-	50,870
	<u>68,215</u>	<u>-</u>	<u>68,215</u>
Fund Balances/Net Assets			
Fund balances:			
Unreserved	46,479	(46,479)	-
Reserved for prepaid costs	737	(737)	-
Reserved for equipment trust	323,371	(323,371)	-
Reserved for vehicle trust	1,499,590	(1,499,590)	-
	<u>1,870,177</u>	<u>(1,870,177)</u>	<u>-</u>
Total fund balances	<u>1,870,177</u>	<u>(1,870,177)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,938,392</u>	<u>-</u>	<u>-</u>
Net assets:			
Invested in capital assets		686,395	686,395
Unrestricted		1,870,177	1,870,177
Total net assets		<u>\$ 2,556,572</u>	<u>\$ 2,556,572</u>

See notes to financial statements.

**Davison-Richfield Area Fire Authority
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2004**

	<u>Governmental Fund</u>	<u>Adjustment (Note II B)</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
Fire protection	\$ 387,442	\$ 66,274	\$ 453,716
Program revenues:			
Charges for services:			
Municipal billings	572,743	-	572,743
Inspection income	5,010	-	5,010
Total program revenues	<u>577,753</u>	<u>-</u>	<u>577,753</u>
Net program revenue		<u>(66,274)</u>	<u>124,037</u>
General revenues:			
Interest income	4,814	-	4,814
Miscellaneous	2,842	-	2,842
Total general revenues	<u>7,656</u>	<u>-</u>	<u>7,656</u>
Excess (deficiency) of revenues over expenditures	197,967	(66,274)	131,693
Fund balance/net assets:			
Beginning of the year	<u>1,672,210</u>	<u>752,669</u>	<u>2,424,879</u>
End of the year	<u>\$ 1,870,177</u>	<u>\$ 686,395</u>	<u>2,556,572</u>

See notes to financial statements.

Notes to Basic Financial Statements

Davison – Richfield Area Fire Authority
Notes to Financial Statements
June 30, 2004

I. Summary of significant accounting policies

The accounting policies of the Davison – Richfield Area Fire Authority (Authority) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Davison – Richfield Area Fire Authority.

A. Reporting entity

In accordance with the provisions of the Government Accounting Standards Board Codification on Standards related to "*Defining the Reporting Entity*," the financial statements of the Davison – Richfield Area Fire Authority contain all the Authority funds and account groups that are controlled by or dependent on the Authority's board members.

The Davison – Richfield Area Fire Authority was formed by an agreement between the City of Davison, Davison Township, and Richfield Township, to operate a fire department on a shared cost basis. The Authority is governed by a seven member board appointed by the governing bodies of the participating members. The agreement provides that each unit will appropriate funds to the Authority based on \$1,450 for each fire run in its jurisdiction and \$483 for each mutual aid fire run/weather call.

In addition, the Board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval. Any of the members may withdraw from the Authority by giving written notice one year prior to withdrawal. The withdrawing party shall receive a share of the equity of the Authority as provided in the agreement. (See Note 2B for each unit's percentage share of fixed assets.)

The following are the contributions made by the Authority members for the year ended June 30, 2004:

	<u>Total</u>	<u>City of Davison</u>	<u>Richfield Township</u>	<u>Davison Township</u>
Revenue	<u>\$572,743</u>	<u>\$119,383</u>	<u>\$123,733</u>	<u>\$329,627</u>

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with fire protection. *Program revenues* include 1) charges to customers or governments who purchase, use, or directly benefit from fire protection or services, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of fire protection. Other items not properly included among program revenues are reported instead as *general revenues*.

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Municipal billings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following governmental fund:

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources.

D. Assets, liabilities, and net assets or equity

1. Deposits

The Authority's cash and cash equivalents include demand deposits and sweep money market funds.

2. Investment

Investments are stated at fair value. A certificate of deposit with a maturity date of greater than three months of time of purchase has been recorded as an investment on the financial statements.

3. Capital assets

Capital assets, which include equipment, are reported in the government-wide financial statements. Capital assets are defined by the authority as personal property assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

3. Capital assets – (continued)

All real property or infrastructure purchased by the Authority must be titled in the name of the Authority. Therefore, any real property or infrastructure purchased by the Authority has been included in capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Alarm equipment	5-15
Radio equipment	3-10
Fire hall equipment	5-10
Fire fighting equipment	5-15
Building improvements	10-15
Building	20
Trucks and vehicles	5-20

4. Fund equity

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2004

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this difference are as follows:

Capital assets	<u>\$686,395</u>
Net adjustment to increase <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u>\$686,395</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 21,001
Depreciation expense	<u>(87,275)</u>
Net adjustment to decrease <i>net changes in fund balances -total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (66,274)</u>

III. Stewardship, compliance, and accountability

Budgetary information

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, a proposed operating budget is submitted to the Authority Board for the year commencing the following July 1. The operating budget includes proposed expenditures, and the means of financing them, for the General Fund.
2. Public hearings are conducted to obtain taxpayer comments.
3. After the Authority Board reviews the proposed budget, it is then sent to the three municipalities for their approval. The budget is legally adopted on a fund basis after each municipality submits its approval to the Authority Board.

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2004

III. Stewardship, compliance, and accountability – (continued)

Budgetary information – (continued)

4. Any revisions to the budget must first be approved by the Authority Board and then by each municipality.
5. Formal budgetary integration is employed as a management control device during the year. Also, the budget is adopted on a basis consistent with generally accepted accounting principles.
6. Budget appropriations lapse at year end.
7. The original budget was not amended during the year. The budget to actual expenditures in the financial statements represent the original budgeted adopted.

IV. Detailed notes on all funds

A. Deposits and investments

Deposits:

The Authority's deposits consist of a checking account and certificate of deposit.

At year end, the carrying amount of the Authority's deposits was \$1,000,000, and the bank balance was \$1,005,000. Of the bank balance, \$100,000 or 9% was covered by Federal Depository Insurance and the remaining balance was neither insured nor collateralized. Certificates of deposit represent \$1,000,000 of the carrying amount. The certificates of deposit are recorded as an investment in the financial statements due to a maturity of greater than three months. The difference between the carrying amount and bank balance is a result of outstanding checks.

Investments:

The Authority has adopted an investment policy. Funds of the Authority will be invested in accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended, and in accordance the following objectives, safety of capital, diversification, liquidity and return of investment. In accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended, the surplus of funds of the Authority may be invested as follows:

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

A. Deposits and investments – (continued)

Investments:

Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, commercial paper, repurchase agreements, Bankers' acceptances of United States banks, mutual funds, investment pools organized under the surplus funds investment pool act, 1982 PA 367, and investment pools organized under the local government investment pool act, 1985 PA 121.

The board has adopted the above as its investment policy and has authorized Bank One as its depository.

The Authority's investments are categorized to give an indication of the level of risk assumed by the entity at year end. The categories are defined as follows: Category 1 includes investments that are insured or registered, or for which the securities are held by the Authority or its custodial agent in the Authority's name; category 2 includes uninsured and registered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name; and category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent not in the Authority's name.

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Repurchase Agreement (checking sweep account)	\$ -0-	\$ -0-	\$767,091	\$767,091	\$770,984

B. Capital assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Governmental activities:				
Capital assets, being depreciated:				
Alarm equipment	\$ 4,662	\$ -	\$ -	\$ 4,662
Trucks and vehicles	1,536,645	-	-	1,536,645
Radio equipment	55,207	4,305	-	59,512
Fire fighting equipment	176,421	2,500	-	178,921
Firehall equipment	98,488	9,496	-	107,984
Building improvements	53,776	4,700	-	58,476
Building	200,000	-	-	200,000
Total capital assets, being depreciated	2,125,199	21,001	-	2,146,200

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

B. Capital assets – (continued)

Primary Government – (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities: - (continued)				
Less accumulated depreciation for:				
Alarm equipment	(2,548)	(423)	-	(2,971)
Trucks and vehicles	(897,915)	(52,138)	-	(950,053)
Radio equipment	(43,819)	(2,757)	-	(46,576)
Fire fighting equipment	(146,004)	(9,827)	-	(155,831)
Firehall equipment	(62,269)	(9,890)	-	(72,159)
Building improvements	(44,975)	(2,240)	-	(47,215)
Building	(175,000)	(10,000)	-	(185,000)
Total accumulated depreciation	<u>(1,372,530)</u>	<u>(87,275)</u>	-	<u>(1,459,805)</u>
Total capital assets, being depreciated, net	<u>752,669</u>	<u>(66,274)</u>	-	<u>686,395</u>
Governmental activities capital assets, net	<u>\$ 752,669</u>	<u>\$ (66,274)</u>	<u>\$ -0-</u>	<u>\$ 686,395</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

Fire protection

\$ 87,275

Total depreciation expense - governmental activities

\$ 87,275

Fixed assets allocation:

Effective with the reorganization of the Authority the fixed assets purchased through December 31, 1999 are to be allocated by the following ownership percentages: City of Davison – 18.22%, Richfield Township – 26.00%, and Davison Township – 55.78%. These percentages were calculated based on the contributions to the Capital Improvement Fund from 1984 to 1999.

For the period 2000 and forward the fixed assets purchased are to be allocated based on the municipal billings paid by each unit for their fire runs divided by the total fire run income. The ownership percentages are:

<u>Period Ending</u>	<u>City of Davison</u>	<u>Richfield Township</u>	<u>Davison Township</u>
Six months ended June 30, 2000	22.22%	26.84%	50.40%
Year ended June 30, 2001	16.63	22.98	60.39
Year ended June 30, 2002	20.21	24.74	55.05
Year ended June 30, 2003	19.65	23.02	57.33
Year ended June 30, 2004	20.84	21.60	57.56

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

C. Fund balance reserves

Per the Authority's plan of reorganization, the General fund is to reserve its fund balance as detailed below:

	<u>Prepaid Costs</u>	<u>Equipment</u>	<u>Vehicle</u>	<u>Contingency</u>	<u>Total</u>
Beginning balance	\$ 737	\$327,193	\$1,344,280	\$ -	\$1,672,210
Revenue	-	23,700	152,865	396,178	572,743
Interest income	-	944	3,870	-	4,814
Other income	-	2,000	-	5,852	7,852
Expenses	-	(36,509)	(1,425)	(349,508)	(387,442)
Loan between funds	-	6,043	-	(6,043)	-
Ending balance	<u>\$ 737</u>	<u>\$323,371</u>	<u>\$1,499,590</u>	<u>\$ 46,479</u>	<u>\$1,870,177</u>

The allocation of fire run revenue by reserve is as follows:

- Equipment reserve revenue is based on the number of runs times \$60.
- Vehicle reserve revenue is based on the number of runs times \$387.
- The balance of fire run revenue, \$1,003 for regular runs and \$36 for mutual aid/weather runs, is allocated to the contingency reserve.

For the year ended June 30, 2004, there was a total of 427 runs. 48 of these runs were mutual aid/weather runs billed at \$483 per run to each unit.

The purpose of each reservation is as follows:

- Equipment - to accumulate funds and replace equipment per an approved budget.
- Vehicle - to accumulate funds and replace vehicles per an approved budget.
- Contingency - to cover regular operating expenses of the Authority. This reserve is not to exceed 20% of the annual operating budget excluding any items expensed through the equipment or vehicle reserves.

During the fiscal year ended June 30, 2002, the equipment fund loaned the contingency fund \$72,209. This amount was to be repaid as the contingency fund had annual revenues in excess of its expenses. At June 30, 2003, the contingency still owed the equipment fund \$6,043. During the year ended June 30, 2004, the equipment fund was repaid in full.

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

D. Long-term commitment

The Authority entered into a seventy-two month non-cancelable agreement for usage of a copy machine. The agreement started November 2001. The monthly payment is \$160 (2,500 copies @ \$.064 per copy).

Following is the amount due by fiscal year:

2005	\$ 1,920
2006	1,920
2007	<u>640</u>
	<u>\$ 4,480</u>

The rental expense for the year ended June 30, 2004 was \$1,866.

V. Other information

A. Retirement plan

The Authority adopted a defined benefit contribution plan effective July 1, 2003 in-lieu of paying social security. All employees are covered by this plan. The Township contributes 6.20% in-lieu of social security and also matches employee's mandatory contribution of 3% with a 3% match for a total employer contribution of 9.20%. Payroll costs of all employees amounted to \$224,868. During the current year, the General Fund contributed the Authority's portion of the pension cost amounting to \$20,687. Employees made all required contributions (\$6,746) to the plan during the current year. The Authority's policy is to pay pension costs as accrued. The Authority also continued to pay the Medicare portion of social security to the Internal Revenue Service.

B. Risk management

The Authority is exposed to various risks at loss related to property loss, torts, errors and omissions, and employee injuries. The Authority has purchased commercial insurance for coverage of all claims except full time employee unemployment benefits. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Authority pays unemployment claims on a reimbursement basis.

Required Supplementary Information

Davison-Richfield Area Fire Authority
Schedules of Revenue, Expenditures, and Changes in
Fund Balances - Budget and Actual
Governmental Fund
Year Ended June 30, 2004

	Budget		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
Revenues:				
Municipal billings	\$ 543,736	\$ 543,736	572,743	\$ 29,007
Inspection income	21,800	21,800	5,010	(16,790)
Interest income	12,000	12,000	4,814	(7,186)
Other income	250	250	2,842	2,592
Total revenues	577,786	577,786	585,409	7,623
Expenditures:				
Current:				
Administrative costs	2,800	2,800	680	2,120
Professional fees	3,950	3,950	3,170	780
Building and grounds	18,415	18,415	14,750	3,665
Department clerk	27,952	27,952	26,842	1,110
Dues, memberships, and subscriptions	2,920	2,920	2,228	692
Fire Authority meetings	1,860	1,860	1,615	245
Insurance	49,650	49,650	36,885	12,765
Office supplies	5,000	5,000	3,536	1,464
Special schools and seminars	13,250	13,250	8,853	4,397
Telephone	5,300	5,300	4,839	461
Utilities	8,775	8,775	10,123	(1,348)
Miscellaneous expense	5,450	5,450	3,913	1,537
Fire prevention	4,000	4,000	3,890	110
Equipment maintenance	7,200	7,200	5,044	2,156
Gas, oil, grease, and etc.	4,000	4,000	3,883	117
Labor	224,889	224,889	212,641	12,248
Radio maintenance	1,000	1,000	947	53
Vehicle maintenance	11,500	11,500	5,669	5,831
Equipment trust expenses	36,460	36,460	36,509	(49)
Vehicle trust expenses	-	-	1,425	(1,425)
Total expenditures	434,371	434,371	387,442	46,929
Excess of revenues over expenditures	143,415	143,415	197,967	54,552
Fund balance at beginning of year	1,672,210	1,672,210	1,672,210	-
Fund balance at end of year	\$ 1,815,625	\$ 1,815,625	1,870,177	\$ 54,552

See notes to financial statements.

August 11, 2004

Davison - Richfield Fire Authority Board
Davison - Richfield Area Fire Authority
Davison, Michigan

We have audited the financial statements of Davison - Richfield Area Fire Authority (the Authority) for the year ended June 30, 2004, and have issued our report thereon dated August 11, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated March 31, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the general purpose financial statements. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Authority that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial

statements. We posted audit adjustments related to accounts payable and accrued wages that could, in our judgment, either individually or in the aggregate, have a significant effect on the Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Current Year Comments

Bank Reconciliations

During the current audit, it was noted that the June bank reconciliation was not yet prepared by early August. Timely bank reconciliations are key to maintaining adequate control over both cash receipts and disbursements. We recommend bank reconciliations be prepared fairly close to the time the bank statement is received.

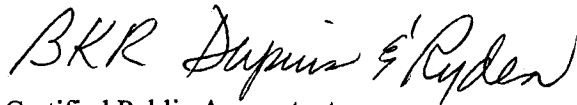
Davison Firefighters Association

During the audit, it came to our attention that there was a separate Davison Firefighters Association that has its own cash account. We could not determine if the Authority has any responsibility to oversee the Davison Firefighters Association's cash. We suggest it be determined what responsibility the Authority has for the oversight of the Association's cash.

Davison - Richfield Fire Authority Board
Davison - Richfield Area Fire Authority
August 11, 2004
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We appreciate the opportunity to present this letter for your analysis and review. This letter is intended solely for internal management and should not be used for any other purpose. We would also like to express our appreciation for the cooperation extended to our staff by the Authority and Davison Township's personnel during the course of the audit. If you have any questions regarding the contents of this letter, please contact us.

Sincerely,

A handwritten signature in cursive script that reads "BKR Dupuis & Ryden".

Certified Public Accountants

Flint Office